

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**ARENAC COUNTY HERITAGE
ROUTE AUTHORITY**

December 31, 2006



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

August 14, 2007

Board of Commissioners
Arenac County Heritage Route Authority
P.O. Box 727
Standish, Michigan 48658

RE: Unqualified Opinions on Basic Financial Statements Accompanied by Required
Supplementary Information

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities of the Arenac County Heritage Route Authority as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Arenac County Heritage Route Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Arenac County Heritage Route Authority, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2007 on our consideration of the Arenac County Heritage Route Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 3 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

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ARENAC COUNTY HERITAGE ROUTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Arenac County Heritage Route Authority, as a whole, and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

The Authority as a Whole

This is the first year of the Authority's existence and as such a comparative analysis between years could not be presented. The primary activity for 2006 was using the donations received along with the Federal and State grant to acquire and begin restoration of the Standish Depot. The net assets are summarized below.

Net assets as of year ended December 31, 2006, as follows:

	Governmental Activities
	<u>2006</u>
Current Assets	\$ 23,506
Noncurrent Assets	<u>527,246</u>
Total Assets	<u>550,752</u>
Current Liabilities	<u>18,855</u>
Total Liabilities	<u>18,855</u>
Net Assets	
Invested in Capital Assets	527,246
Unrestricted (Deficit)	<u>4,651</u>
Total Net Assets	<u><u>\$ 531,897</u></u>

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charges or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net or related debt) are considered restricted.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the current date, again, this is the first year of the authority's existence.

	<u>Governmental Activities 2006</u>
Program Revenues	
Operating Grants and Contributions	\$ 47,196
Capital Grants and Contributions	<u>529,862</u>
Total Revenues	<u>577,058</u>
Program Expenses	
Recreation and Culture	<u>45,161</u>
Total Expenses	<u>45,161</u>
Change in Net Assets	<u><u>\$ 531,897</u></u>

Governmental Activities

	<u>Governmental Activities 2006</u>
Revenues	
Federal Grants	\$ 103,410
State Grants	25,852
Contributions From Local Units	218,328
Other Revenues	<u>229,468</u>
Total Revenues	<u>577,058</u>
Expenses	
Recreation and Culture	42,545
Capital Outlay	<u>529,862</u>
Total Expenses	<u>572,407</u>
Excess of Revenues Over Expenditures	<u>4,651</u>
Beginning Fund Balance	<u>-</u>
Ending Fund Balance	<u><u>\$ 4,651</u></u>

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

The Authority did not adopt a budget in 2006.

Capital Asset and Debt Administration

At the end of 2006, the Authority had \$529,962 invested in land, buildings, and building improvements and incurred \$2,616 in depreciation expense. The net capital assets of \$527,246, is shown on the government-wide financial statements. The Authority does not have any long-term debt as of fiscal year ending December 31, 2006.

Economic Factors and Next Year's Budgets and Rates

In the upcoming year, the Authority will continue to restore the Standish Depot.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority's Office, 107 North Main Street, Standish, Michigan, 48658.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT A

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Current Assets			
Cash	\$ 17,317		\$ 17,317
Due From Historical Society	5,367		5,367
Due From Other Local Units	822		822
Total Current Assets	23,506	\$ -	23,506
Noncurrent Assets			
Capital Assets (Net of Accumulated Depreciation)		527,246	527,246
Total Noncurrent Assets		527,246	527,246
Total Assets	\$ 23,506	\$ 527,246	\$ 550,752
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	\$ 18,855		\$ 18,855
Total Liabilities	18,855	\$ -	18,855
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balances--Unreserved	4,651	(4,651)	-
Total Fund Equities	4,651	(4,651)	-
Total Liabilities and Fund Balance	\$ 23,506		
Net Assets			
Invested in Capital Assets		527,246	527,246
Unrestricted		4,651	4,651
Total Net Assets		\$ 531,897	\$ 531,897

ARENAC COUNTY HERITAGE ROUTE AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Federal Grants	\$ 103,410		\$ 103,410
State Grants	25,852		25,852
Contributions From Local Units	218,328		218,328
Other Revenues	229,468		229,468
Total Revenue	577,058	\$ -	577,058
Expenditures			
Recreational and Cultural	42,545	2,616	45,161
Capital Outlay	529,862	(529,862)	-
Total Expenditures	572,407	(527,246)	45,161
Excess of Revenue Over (Under) Expenditures	4,651	527,246	531,897
Change in Net Assets		527,246	531,897
Fund Balance/Net Assets--Beginning of Year	-	-	-
Fund Balance/Net Assets--End of Year	\$ 4,651	\$ 527,246	\$531,897

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arenac County Heritage Route Authority (authority) is an authority that was established by Arenac County, City of Standish, City of Au Gres, City of Omer, Adams Township, Arenac Township, Clayton Township, Deep River Township, Lincoln Township, Standish Township, and the Village of Sterling. The Authority is governed by an 11 member board with each unit appointing one member.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the authority (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Authority. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Authority's assets and liabilities with the difference being reported as either invested in capital assets or unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

The same financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customer or applicants for goods or services or privileges provided; and 2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Building and Improvements	20 to 40 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Authority did not adopt a budget in 2006 which is a violation of Public Act 2 of 1968, the Uniform Budget and Accounting Act.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE C--BALANCE SHEET CASH AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91, authorizes the authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The authority has designated one financial institution for deposit of the authority's funds. The authority has not adopted an investment policy.

At year end, the authority's deposits and investments were reported in the basic financial statements in the following category:

	<u>Governmental Activities</u>
Bank Deposits	<u>\$17,317</u>
Total	<u><u>\$17,317</u></u>

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the authority's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized;
- b. Collateralized with securities held by the pledging financial institution; or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

At December 31, 2006, the bank balance of the primary government's deposits is \$17,317, of which \$17,317 is covered by Federal depository insurance.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE C--BALANCE SHEET CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At December 31, 2006, the fair value of the authority's investments is listed above with all maturities due within 12 months or less.

NOTE D--RECEIVABLES

As of December 31, 2006, the Historical Society still had \$5,367 of donations not yet turned over to the Authority. This balance is expected to be received by the authority in 2007.

The \$822 recorded in the Due From Other Units is an uncollected portion of the per capita fees assessed against the local units that participate in the Authority.

NOTE E--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land		\$ 200,600		\$ 200,600
Construction in Progress		129,262		129,262
Subtotal	\$ -	329,862	\$ -	329,862
Capital Assets Being Depreciated				
Buildings		200,000		200,000
Subtotal	-	200,000	-	200,000
Less Accumulated Depreciation for Buildings		2,616		2,616
Subtotal	-	2,616	-	2,616
Net Capital Assets Being Depreciated	-	197,384	-	197,384
Governmental Activities Capital Total Capital Assets--Net of Depreciation	\$ -	\$ 529,862	\$ 2,616	\$ 527,246

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

The depreciation expense was \$2,616 during the year. The construction in progress is the renovations currently underway to restore the Standish Depot.

NOTE F--RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The authority has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmens' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE G--COMMITMENT

The Authority is currently in the process of renovating the Standish Depot. The renovations are to be paid with a \$756,000 grant received from Federal and State sources. As of December 31, 2006, \$129,262 has been received and used to begin the restoration. These expenses are recorded as the construction in progress in Note E.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

August 14, 2007

Board of Commissioners
Arenac County Heritage Route Authority
P.O. Box 727
Standish, Michigan 48658

RE: Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities of the Arenac County Heritage Route Authority as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Arenac County Heritage Route Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Arenac County Heritage Route Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting and are documented as items 2006-01, 2006-02, and 2006-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider all of the above items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arenac County Heritage Route Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as items 2006-04 and 2006-05.

This report is intended solely for the information of the Arenac County Heritage Route Authority's Board and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES

Segregation of Duties

Finding 2006-01

Condition: The Arenac County Heritage Route Authority has one individual that prepares receipts, prepares deposits, makes deposits, receives invoices, prepares checks, signs checks, and performs bank reconciliations with no checks and balances in place to verify the accuracy of these activities.

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) lists *control activities* as one of the five components of internal control. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. A key component of control activities is segregation of duties. Segregation of duties requires key duties and responsibilities to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing the transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Recommendation: We recommend the Authority implement internal control procedures and management reviews to provide segregation of duties for the procedures listed above.

Receipt Process

Finding 2006-02

Condition: We noted in review of the receipt process the following control deficiencies:

1. Written receipts are not printer pre-numbered;
2. The name of the authority is hand written on each receipt;
3. Also, written receipts do not contain the method of payment, such as "cash" or "check."

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

1. Official receipts are to be issued for each collection whether received from an individual, the state, the county, or another local unit department.
2. Numerically controlled (printer pre-numbered) three-part official receipts with the name of the local unit printed on the receipt must be issued for all collections.
3. The use of generic, store-bought receipts is strictly prohibited.
4. "Cash" or "check" as the method of payment must be indicated on the receipt.
5. The receipt must identify the individual receiving payment.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
7. Checks must be restrictively endorsed at the point and time of collection.
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

Recommendation: We recommend that the Authority comply with all of the above provisions for the receipt process.

Disbursement Process

Finding 2006-03

Condition: We noted in review of the disbursement process, the following control deficiencies:

1. The process does not provide for administrative approval, board approval, and/or account classification for expenditures;
2. Invoices documenting expenditures were not provided for the events sponsored for Depot Days;
3. Checks are signed by only one individual, who also has the responsibility to review the invoices, prepare the checks, and reconcile the bank statements.

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

- Dual signatures are required for all checking accounts (except the separate tax collection checking account). The dual signatures **MUST** be the clerk (or deputy clerk) and the treasurer (or deputy treasurer, see charter).
- Appropriate documentation (supporting invoices) must be attached for all disbursements.
- Original bills, not copies, must be used for documentation.
- All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.
- Checks should not be returned to the originating office for distribution.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

- Bank accounts must be promptly (within the month following the bank statement date) reconciled by an individual not involved in the receipt/bank deposit process. In small units of government when segregation of duties is not possible, a second official must review the reconciliation.
- Adequate security must be provided over unused checks.
- Checks must NOT be signed prior to being completely filled out.
- All functions (i.e., deposit, write checks, issue checks, reconcile account) regarding a checking account should NOT be performed by the same individual.
- Numerically controlled, pre-numbered checks must be used.
- Actual checks must be returned to the local unit (record retention requirement). Under the Records Media Act, electronically stored checks should meet this requirement.

Recommendation: We recommend that the authority comply with all of the above provisions for its disbursements procedures.

STATUTORY NONCOMPLIANCE

Failure to Adopt a Budget

Finding 2006-04

Condition: The Arenac County Heritage Route Authority has not adopted a budget for 2006 or 2007. The Authority has and is still incurring expenditures in excess of the budget (because there was no budget adopted).

Criteria: Public Act 2 of 1968, the Uniform Budgeting Act, requires all local units of government to adopt a budget prior to the start of the local unit's fiscal year. Further, section 18 (3) states: "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

Directive: We direct the Authority to adopt a budget to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by law. The Authority should also take appropriate action to ensure that the budget is balanced and adopted in a timely manner as required by law and make budget amendments as needed throughout the year.

ARENAC COUNTY HERITAGE ROUTE AUTHORITY

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE (Continued)

Investment Policy

Finding 2006-05

Condition: As of December 31, 2006, the Arenac County Heritage Route Authority has not adopted an investment policy as required by statute.

Criteria: According to Public Act 196 of 1997, a formal investment policy is to be adopted by the board. Public Act 196 of 1997, section 5 states in part: "Not more than 180 days after the end of a public corporation's first fiscal year that ends after the effective date of the amendatory act that repealed section 2, a governing body, in consultation with the investment officer, shall adopt an investment policy that, at a minimum, includes all of the following:

- (a) A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
- (b) A delegation of authority to make investments.
- (c) A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.
- (d) A statement concerning safekeeping, custody, and prudence."

GASB Statement No. 40 added additional requirements related to deposit and investment risk which should be incorporated into the policy.

Directive: We direct that an investment policy be adopted in accordance with State statute and include reporting requirements as required by GASB Statement No. 40.